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SUBJECT: Military Assistance Program for Libya - FY 1959

Country Team Message

I. Introduction

The Department, in its instruction CA 8508, requested the Country Team to analyze certain aspects of the proposed military assistance program for Libya in FY 1959. Because there has been no MAAG in Libya until the present, the Embassy and USOM have been unable to comply with this request. As such an exercise would require still more time even were the MAAG's entire complement present, the COT proposes to satisfy the Department's request by submitting a statement of certain general considerations relating to the proposed MAP for Libya. This material, which deals with the political justification and economic aspects of the FY 59 MAP in Libya, is the subject matter of this despatch and is a COT message.

The COT believes that military assistance given by the United States to the government of Libya will contribute to the achievement of US political objectives in the country. The maintenance of Libya's political cooperation with the US and continuing use of Libya for US bases depend upon maintenance of internal security and Libya's national unity. US military assistance will contribute to a more stable regime in Libya and should help eventually to reduce sources of friction between the provinces by establishing the federal army as the major military force of Libya. Such assistance will also provide a further degree of security for US military installations against internal disturbances.

It is the Country Team's view that military assistance program for Libya should not require any increased contribution by the Libyan government for defense purposes because of the great need ~~for~~ in Libya for financing economic development. Because of the country's poverty, it would be unrealistic to expect the Libyan government to increase its defense budget at the expense of development.

II. RELATION OF MILITARY ASSISTANCE TO OVERALL U.S. OBJECTIVES

United States' assistance programs in Libya have justification primarily on political rather than on economic grounds. Their objectives are to preserve a pro-Western orientation of the Government, to assist in the development of Libya's primitive economy, to provide a base for a government sufficiently strong to counter expansion of Soviet-Egyptian influence in Libya, and to create and maintain a political atmosphere in which U.S. military installations within the country can be operated in security and without harassment. The forthcoming substantial reduction of British troop strength within Libya makes it necessary for the United States to consider the granting of military assistance to

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Libya. This would provide a central army capable of maintaining the integrity of the Federal Government and assisting in the defense of U.S. military installations against possible local disturbances.

Both the United States and the United Kingdom have been faced with repeated Libyan requests for military assistance. The Federal Government has felt the need for an army both for its prestige value and for the counter-weight it would provide to the relatively strong police and para-military forces maintained by the provinces of Cyrenaica and Tripolitania. While the British have provided equipment and training for a small army, their policy has been to make a minimal effort in this field in the light of the fact that British forces within Libya have been adequate guarantee for internal security. The British decisions to reduce the number of their troops from a level of eight to ten thousand to two thousand by March, 1958 and to remove all ground forces by 1959, and to withdraw from as much of the June, 1956 commitment to assist in expansion of the Libyan Army as is politically feasible, have created a sensitive situation for the United States. In addition to the political and military desirability of assisting in the strengthening of internal security forces, the sense of urgency on the part of the Federal Government for an expanded army paves the way for a repitition of Soviet and Egyptian offers of assistance in the military field. The Country Team has felt that it would be inimical to U.S. interests to move slowly either in carrying out current U.S. commitments in the field of military assistance or in considering sympathetically further assistance in the equipping and training of an expanded Libyan Army.

Military assistance, in addition, should have the effect of helping to give the Federal Government the sense of confidence necessary to deal with the deep divisive forces at work within the country. The present government has shown no tendancy to try to oppose provincial wishes, even where the good of Libya as a whole or the obligations of the Federal Government are involved. It is weak and indecisive. A strong federal military establishment will strengthen the Government in exercising truly federal powers, overcoming many of the problems which have arisen from the semi-autonomous power wielded in practice by the provinces.

United States national security objectives will be best served by having Libya devote as much of its available resources as feasible to non-military expenditures and to economic development projects with the United States assuming military costs through provision of equipment and training and through direct forces support. Libya's economy is not now viable and, barring discovery of oil or other mineral resource in sizeable quantity, will remain dependent on external assistance for many years to come. Since a major portion of the income of the Libyan Government is derived from foreign grants and since these in large part are earmarked for the specific purpose of providing advisory services or execution of economic development projects, assumption of increased military expenses would force a shift in its expenditure pattern away from present programs of capital investment and economic development. The forthcoming reduction in the British subsidy to Libya from $11.9 million to $3.5 million plus $1.4 million in 1958 only to bridge budgetary gap will necessitate some portion of funds contributed by foreign states for developmental assistance being shifted to direct budget support. Provision of U.S. military assistance including direct forces support will minimize diversion of funds from developmental projects. Failure to provide such support will create a situation in which pressures generated on the Government may make it increasingly susceptible to Egyptian-Soviet proffers of aid.

In summary, the Country Team feels that continuance of U.S. economic assistance programs in Libya and assumption of primary responsibility for the expansion and training of the Libyan Army are essential to the maintenance of the present United States position in Libya.

III. ECONOMIC ASPECTS OF MILITARY AID PROGRAM

A. Libya's Use of Resources and Proposed MAP

Washington's instructions for preparing the COT recommendations for military assistance in FY 1959 emphasized that consideration of the capabilities of the prospective aid recipient is the major objective of this exercise. The COT believes that both political and economic factors justify the present pattern of use of domestic resources available to the Libyan Government and that the United States should not condition military assistance on any change in this pattern. The following material sets forth the arguments for this point of view.

Between the need for financing economic development and the military strength which the UK has provided Libya since 1951, defense expenditures by the Libyan Government have run at very low levels in recent years. The combined budget estimates for defense expenditures including the cost of internal, paramilitary units but excluding those for police functions show an amount of $2.0 million or 6.3 percent of total projected federal and provincial expenditures in the current fiscal year and $2.25 million or 6.5 percent in FY 1959.

One can argue, of course, as to the division of resources as between defense and development. And the Libyan Government could increase expenditures for the military establishment relative to development. But in so doing, the COT believes that it would prejudice its own long-term development. The central fact of the Libyan economy is its poverty. A nation of just over one million population, agriculture and animal husbandry provide the base for its economy. Recurrent droughts cut deeply into income from these sources. Unskilled manpower is the only natural resource of the country, although oil reserves may exist. For purposes of FY 1959 programming, this possibility has no relevance.

Both the Libyan budgets (for federal and provincial governments) and its balance of payments reflect its poverty. Budgetary expenditure in recent years has exceeded internal revenue by between one-third and one-half. During the past five years, British grants have covered the bulk of this gap. The visible trade deficit in 1955 reached almost $28 million, and in 1956, almost $36 million, while imports in these years were respectively $40 million and $49 million. Exports in recent years have been one-third of imports. Foreign exchange receipts from foreign grants and local expenditures by foreign troops cover the trade deficit.

Development of its economy is the single most urgent task of the Libyan Government. At present, it devotes the larger part of its own resources to this end or operation and maintenance of existing development. Virtually all assistance from the U.S. and the UK flows into these uses - health, education, agriculture and communications. Without such development, there is no prospect for viability, and even with it, Libya faces a long period before achieving any degree of true economic independence. Discovery

and exploitation of oil certainly would change this situation, but this is still a question of the future. The COT believes that for the present the U.S. interest lies in encouraging the Libyan Government to the maximum and most efficient use of its own resources for economic development. This would not prejudice an examination in the future of the distribution of available resources among the government's principal demands.

As noted in Section II, the original rationale for U.S. military assistance was essentially a political judgment and it predicated no Libyan contribution for support of the larger army. The EUCOM Joint Military Survey Team for Libya noted in its conclusions "...it is unrealistic to expect the Libyan Government to contribute to the support of the proposed expansion of the army." The COT knows of no reason to amend this. Not only then did the original recommendation to provide military assistance to Libya conclude that the Libyans would not underwrite any part of the cost of the increment but in the discussions with the Government leading to conclusion of the MDAP agreement, the U.S. side made no effort to induce Libyan support. The Libyans undoubtedly hope and assume our military assistance - at least support of the 1000 man increment - to be without increased cost to them.

For these reasons - first, the poverty of Libya and the overwhelming need for development and second, the practical consideration that the Libyan Government would undoubtedly refuse any request to devote more of its resources to defense - the COT believes that the U.S. should not seek any additional support by the Libyan Government of an increase in its forces.

B. Relationship Between the Proposed MAP and Other U.S. Assistance to Libya.

The general position of the United States toward assistance to Libya is that it be the minimum necessary to maintain the political cooperation of the Libyan Government and to ensure the continuing use by the US of military facilities within the country. Aid by the U.S. to date has comprehended various forms - development assistance, technical assistance, Air Force grants, and PL 480, Title II commodity grants. The basic problem is to quantify the minimum level of total aid for Libya with the subsidiary one of how this should be divided.

The source of greatest uncertainty in seeking tentative orders of magnitude stems from the British decision of last January to reduce by $7.0 million as of April 1, 1958 the annual grant of $10.5 million which they have made during the past five years to the Libyan Government and which was augmented in FY 1957 by $1.4 million. The basic grant consisted of two elements - $7.7 million for direct budgetary support and $2.8 million for economic development. It is not clear yet how the proposed reduction will affect each. But it appears evident that the British will not reconsider their decision and hold the reduction to less than that now projected other than bridging the gap between April 1 and June 30, 1958 with an additional $1.4 million.

If Libya were to lose the full value of the proposed reduction in the British grant, a serious financial crisis would confront the Government. The reduction now planned would represent 25 percent of budget revenue and would force the Government either to reduce its expenditures including of course those for economic development or to resort to deficit financing. Either course would involve grave consequences

for the economy. The COT does not believe it in the U.S. interest to allow any serious disturbance to affect the Libyan government's financial position. The political consequences of a failure to pick up at least the larger part of the reduction in the British grant would undoubtedly jeopardize the attainment of U.S. objectives. In view of the fact that it is the British who would be directly responsible, this may seem to be an illogical conclusion, but it appears that the Libyans have already discounted the British action and assume that the U.S. stands ready to provide them with whatever amount the British may cut.

Reverting to the question discussed above of Libya's available resources in relation to MAP, should the U.S. not assume the full amount of the British reduction, the position of the Libyan Government toward additional defense expenditures would simply be reinforced. Furthermore, various elements of budgetary expenditures are increasing. For example, only in the recent past has the Libyan Government been able to develop even minimal facilities for public health services and education. These facilities are a greater change on the government's resources but they are vital parts of the development processes. So far as the Libyan Government's concerned, the move of its capitol from Tripoli to Baida will involve heavy additional expenditures. Although the COT regards this move as folly and opposes the move completely, it would undoubtedly prejudice an additional contribution to defense by the Government. Faced with growing demands for development which are inherent in programs now underway and confronted with a reduction in revenue, the Libyan Government would be in an even more difficult position toward increasing its defense expenditures.

The COT is not now prepared to judge whether it would be either necessary or desirable for the U.S. to take over the entire reduction of the British subsidy. For example, to the extent that military assistance funds will cover expenditures previously made for defense, no need would exist for additional financing. It is possible that there may be other types of expenditures foreseen in the budget which could be reduced or eliminated.

If one assumes, without prejudice to the ultimate decision, that the U.S. would take over the entire reduction of the British grant, the total level of U.S. assistance to Libya in FY 1959 would be of the following rough magnitude:

TABLE I
US AID TO LIBYA
Fiscal Years 1957-59

Type of Assistance	FY 57 (Obligated)	FY 58 (Illustrative)	FY 59
	Million dollars		
Military Assistance	0.4	2.0	3.3 /a
Defense Support (Development Assistance)*	16.9	16.0 /b	16.0
Technical Cooperation	2.4	2.4	2.5
USAF Grant	4.0	4.0	4.0
PL 480, Title II /c	3.8		
Total	27.5	24.4	25.8

/a Because of lag in programming, COT believes actual figure may be lower.
/b COT assumes that budgetary support for Libya will begin in US FY '58.
/c It seems likely that there will be additional PL 480 Title II programs in Libya but no assumptions made as to timing.

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Of total FY 59 funds, firm commitments exist of course only for the AF grant of $4 million and for military assistance of $3.3 million, although the U.S. has not yet informed the Libyans of the latter. The COT is not yet prepared to make its justification of the def ase support funds which Libya should receive in FY 1959 so that component is simply a projection of the illustrative FY 1958 level.

C. Economic Effects of Military Assistance to Libya

The last part of this section concerns the economic impact of the proposed military assistance program upon Libya. Before treating this subject directly, however, one should examine briefly the economic outlook for the country during the period concerned. The general nature of some extraordinary influences which will work on the Libyan economy is now evident. The search for oil is growing steadily, and demand for various goods and services by those engaged in exploration for oil reflects the growth in numbers of personnel and efforts of the oil companies. Should there be major discoveries of oil, one could expect even greater increases in the activities of the oil companies to accompany preparations for longer-term development. The British plan sharp reductions in their forces with concomitant reductions in the number of Libyans employed by them. This reduction will entail not only a serious loss of foreign exchange (Total British Military expenditures in Libya were $9.1 million in 1955 and $17.4 million in 1956) but a significant reduction in demand. The multiplier effects of discharging up to 5,000 Libyans should produce a powerful cumulative deflationary impact.

The decision of HMG to reduce the level of budgetary support for Libya could completely overshadow U.S. military assistance in terms of economic impact, ~~if there was no~~ Considering only these two items, a net deflationary impact would result to the extent that the British reduce their budgetary support beyond the value of the U.S. contribution to the cost of increasing the Libyan federal army. This is probably a theoretical analysis because it seems unlikely that the Libyan Government would acquiesce in a forced reduction of expenditures.

Another factor which will tend to have mixed effects upon parts of the Libyan economy is the move of the national capital from Tripoli to Baida. Present plans are for the Government to complete the move by 1959, and this will entail construction of a new city. One can assume that many of the distributive facilities in Tripoli will become if not completely redundant, at least less economically justifiable than at present, leading perhaps to a modest depression of the area. On the other hand, the requirement for labor and materials in a newly developing area should encourage some inflationary impact there to the degree that there is immobility of production factors.

What all of these factors taken together imply for FY 1959 is of course an imponderable because of the difficulty of quantifying each trend. There is no doubt that the operations of the oil companies which are tending to a steady increase have a powerful expansionary impact, nor is there any doubt that the reduction in British forces will in turn have a powerful contractionary effect. Perhaps the more satisfactory method of treating this question is to assume a rough balance between the opposing trends, i.e., to project the impact of military assistance on the basis of other things being equal.

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The form that U.S. military assistance takes will of course determine the impact of such assistance on the Libyan economy. The total of $2.0 million assistance projected for FY 59, will be for support costs and pay, [redacted] The COT believes that the aid should be direct transfer of dollars to the Government of Libya as opposed to transfer of Libyan currency generated by commodity imports. The principal reason for the recommendation is that commodity import programs appear to be most difficult to administer in Libya. The USOM is seeking to arrange for the first program of this type during the current fiscal year but there is every reason to believe that the values involved will be very small if a program can be arranged at all.

The COT believes that dollars provided as military assistance will go far in providing goods and services to meet the demand created by support and payment of troops. Internal resources are so sparse in Libya that demand for any goods undoubtedly involves a much larger demand for imports than a comparable volume of demand in other countries. There are no studies at hand of the composition of consumers' expenditures or analysis of these in terms of the relationship between the internal and external elements of demand. But irrespective of these considerations, an increment of the reserves does provide the country with resources to meet increasing demand. This assumes of course that there would be no significant restriction of imports in Libya, an assumption which political factors seem to warrant. This view does not suggest a direct relationship between the type of expenditure made by Libyan soldiers from their pay envelopes or by the Government in maintaining these soldiers and the imports of any specific commodity. Rather it suggests only that at some point in the economic process, goods acquired with this increment of demand would be replaced from abroad. Certainly the consumption processes here are imperfect and there will be some increase in demand for local resources so that some local price pressures might develop, but these should not be significant.

Should support payments be made in local currency, the considerations outlined above should still be valid with one further assumption. Total demand would be increased by the amount of the U.S. contribution at the time of the contribution, but prior to this, Libya's foreign exchange reserves would save an amount equivalent to the U.S. contribution as imports financed by [redacted] U.S. aid presumably would be part of normal demand for imports. Consequently, if the Libyan Government stands ready to use these savings of foreign exchange to meet the increase in demand when the U.S. makes local currency payments, there should be no significant inflationary pressures generated by military assistance.

Another economic effect of the proposed U.S. assistance would be the withdrawal of manpower from the local labor market. Again a lack of pertinent statistics makes it difficult to draw any firm conclusions. A census of employment in the urban areas of Libya made in 1956 led to the conclusion that there is practically no unemployment in the two major cities, but the surveyors made no effort to ascertain the extent of under-employment of which much must exist. The study noted further that "the proportion of the working population engaged in agriculture is still not known." In a land of Libya's population under conditions of relatively full employment, one couldeexpect that the withdrawal of 1035 men initially and annual increments thereafter of 410 men from the labor force would lead either to reduced outputs and/or higher wages. Under present circumstances, however, it seems unlikely that the effective demand for

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manpower related to manpower supply is such that the proposed increment to the Federal Army would produce any significant pressures on wages or would result in significant manpower shortages in development programs. This assumption rests on the view that there is a significant element of unemployment or under-employment among the agricultural population and one of under-employment in the cities.

Quite apart from the need for the type of internal security force contemplated and the political factors which justify it, there is one consideration which tends to justify it from an economic point of view. The recruits will undoubtedly receive some vocational training in addition to their military training. As the Libyan economy needs even the simplest skills such as truck-drivers, automotive maintenance men, clerical staff, etc., it would seem reasonable that some part of the training received in the army will be valuable in the longer run. Another factor which does not justify but could not have a negative economic effect is that to the extent provincial police units are ultimately replaced by or absorbed in the Federal force, there would be no effect upon the total labor force.

Rodger P. Davies

Rodger P. Davies
Charge d' Affaires, a. i.

Concurrences:
MAAG - Col. Sachs (in draft)
USOM - MJGordon

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